

VZCZCXRO4746
RR RUEH DU RUEHJO RUEHMR
DE RUEHSA #4969/01 3570731
ZNR UUUUU ZZH
R 230731Z DEC 05
FM AMEMBASSY PRETORIA
TO RUEHC/SECSTATE WASHDC 0608
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUCPCIM/CIMS NTDB WASHDC
RUCPDC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 03 PRETORIA 004969

SIPDIS

SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR OAISA/RALYEA/CUSHMAN
USTR FOR COLEMAN

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [EFIN](#) [ETRD](#) [BEXP](#) [KTDB](#) [PGOV](#) [SF](#)

SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER December 23 2005
ISSUE

11. Summary. Each week, Embassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- Second Phase of BEE Codes Released;
 - Unemployment SA's Challenge in 2005;
 - Black Incomes Could Prolong Consumer Demand Growth;
 - South African Charity; and
 - SA Tourist Arrivals Up;
- End Summary.

Second Phase of BEE Codes Released

12. The Department of Trade and Industry (DTI) released for public comment the second phase of the Black Economic Empowerment (BEE) codes of good practice, which outline multinational companies and small enterprise BEE requirements. In terms of the codes, equity ownership scores 20 BEE points out of 100, but foreign corporations would be allowed to accumulate the 100 points through other requirements. Multinational companies that meet specific criteria will be given alternative options in lieu of black equity ownership. DTI's Acting Chief Director on BEE, Polo Radebe, said that in order to qualify for the alternative option, a multinational would have to submit evidence that it had a global policy in place to maintain 100% ownership of its foreign subsidiaries. One of the alternative options will be to launch job-creating projects in government-identified strategic economic sectors. Other options include preferential procurement, skills development and small business development as areas where multinationals could score points. Foreign companies also have the option to participate in public programs, which would be regarded as equity equivalents. Participation would, however, have to equal 25 percent of their local operations in order for them to score full ownership points. Polo Radebe said foreign companies could also meet ownership requirements by selling offshore equity equivalent to 25% of domestic operations to local black individuals.

13. Clarification regarding small business requirements in meeting BEE goals was also released as well as plans for creating an exit mechanism for black investors while allowing the companies to keep their empowerment status. The codes say "qualified small enterprises" (the code defined qualified small enterprises' revenue and employee

limits for different economic sectors) can choose to meet only five of the seven scorecard elements. DTI plans to create a new warehousing fund that will buy shares from black investors wanting to divest from empowerment deals. DTI Deputy Director-General Lionel October said the warehousing function would hopefully lead to less stringent lock-in clauses in empowerment deals, which typically prevented black partners from selling their shares before a certain time, even if there were legitimate reasons. To use the fund, a company must have already found new black shareholders to whom it wanted to sell, and the fund could only warehouse shares for a maximum of three years. If the new black investors can't come up with funding during that time, the fund will try to find replacements. Industry has three months to comment on the draft legislation, and the final version may be ready for implementation by November 2006. Source: Business Day and Business Report, December 21.

Unemployment SA's Challenge in 2005

¶4. Patrick Craven, from the Congress of South African Trade Unions (Cosatu), identified unemployment and contract labor as one of the biggest challenges facing South Africa. The increasing wage gap between the poorest workers and top South African executives, inherited from the apartheid era, is another challenge the union plans to address. Craven said that the income gap, unemployment, increasing use of contract labor, and a reduction in the quality of jobs were among the reasons for a number of strikes in 2005. In 2005, South Africa experienced strikes in the mining, steel and engineering, glass, airport baggage handling, retail, electrical and other

PRETORIA 00004969 002 OF 003

small sectors. South Africa's official rate of unemployment is 26.5%, while the expanded version, which includes discouraged workers, is above 40%, according to Statistics SA. Man-days lost to strikes and other forms of work stoppages more than doubled to 2.2 million days during the first nine months of 2005 from 1.05 million during the same period in 2004, according to the South African Reserve Bank's December 2005 Quarterly Bulletin. Industrial action was largely related to wage disputes, which accounted for 88.7 percent of the number of man-days lost during the first three quarters of 2005. Source: I-Net Bridge, December 19.

Black Incomes Could Prolong Consumer Demand Growth

¶5. The black middle class has grown by 30% in the past 12 months, adding another 421,000 black adults to South Africa's middle-income group and increasing the black population's share of South Africa's total middle class to almost a third, according to the 2005 All Media and Product Survey (AMPS) data released by the SA Advertising & Research Foundation (SAARF). A Financial Mail article defined the black middle income group as Living Standard Measure 7-9, correlating to average monthly household incomes ranging from R6,444 (\$1,020, using 6.3 rands per dollar) to R11,864 (\$1,880). In the period between 2001 and 2004, there were only 300,000 new black entrants to the middle class, but in just the past 12 months another 420,000 have joined, growing 30% in 12 months. Over the past 12 months, LSM 8 grew by 42.6%, the largest increase in black members for any LSM category. During the same period, LSMs 1-3 (the lowest income categories) declined by 802,000 blacks. LSM 10 (average monthly income of R18,822 or \$2990) increased by 18,000 blacks (17.6% growth) in 12 months. However, the total number of blacks in LSM 10 in 2005 was still only 120,000 people or 0.07% of all blacks, whereas a third of all whites are in LSM ¶10. South African blacks have raised their share of the total middle class from 28.4% in 2003/2004 to 32.6% in

2004/2005. During the same period, whites' share of the total middle class fell from 45.4% to 41%. Between 1993 and 2003, though the demographic composition of the population remained more or less the same, black households' contribution to total household expenditure increased from 36% to 46%, making blacks the country's biggest consumer base. Source: Financial Mail, December 16 issue and Sunday Times, December 15.

South African Charity

16. According to the State of Giving Project survey, South Africans contribute 2.2% of the monthly income of working age population to poverty alleviation and development. About 17% of respondents volunteered their time, with poorer people giving more time. More than half of respondents (54%) have given money to charities or other causes, a third (31%) gave food or goods, while less than a fifth (17%) volunteered time for a charity or cause. The survey questioned more than 3,000 South Africans over the age of 18, including those living in informal settlements and rural areas. Top priorities of charity included the youth (22%), HIV/AIDS (21%) and the poor (20%), with less than 8% giving to international causes. Differences in largesse between gender and race groups were slight, and there were similarly slight differences between levels of education and socioeconomic status. However, there were variations between the provinces. Less than half of Gauteng's citizens (41%) gave money and 12% gave time, while 49% in Eastern Cape gave money and 16% gave time. Source: Business Day, December 19.

SA Tourist Arrivals Up

17. According to Statistics SA, the number of overseas tourists to South Africa in July 2005 increased 7.8%, with arrivals from the U.K. and Germany still showing recent growth. There was recently a decline in the numbers of arrivals from these markets, attributed to the strong rand. Statistics SA's overseas arrivals in July increased to 148, 212 from 137,538 in the corresponding period 2004, and most of these were from the U.K. (29,537), U.S.

PRETORIA 00004969 003 OF 003

(25,793) and Germany (12,013). At 17.6%, the U.S. showed the biggest increase in arrivals, while there was a 30.9% decrease in tourists from France. The number of tourists from other African countries increased 26%, from 381,846 in July 2004 to 481,109 in July 2005. Lesotho accounted for 28.8% of tourists, followed by Swaziland (16.2%) and Botswana (15.5%). SA Tourism Chief Executive Officer Moeketsi Mosola, said each tourist spent on average R408 (\$65) more than in the corresponding period last year. Tourism contributed R93.6 billion (\$15 billion), or 7.4%, to the national economy in 2004. Second-quarter figures from SA Tourism showed that African countries had made the biggest contribution to total foreign direct spending in South Africa, followed by Europe. Source: Business Day, December 21.

TEITELBAUM